Economic passivity as a curve

Income, residual value and the holder's asset maintenance work

Towards a dynamic classification of ultra-passive, passive, semi-passive, semi-active, active and ultra-active income

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Conceptual working paper. The figures included are indicative analytical diagrams: they do not represent empirical data, but rather expected curves and positions according to the typical configuration of each asset in relation to its holder.

Abstract

The classic distinction between passive and active income is insufficient to describe the economic reality of assets, businesses, investments and sources of income. It is not enough to ask whether an income stream “requires work”. The central question is more precise: what happens to the income flow and to the value of the asset if the holder stops administering, organising, supervising or intervening for a given period.

This paper proposes a gradual theory of economic passivity based on three main concepts: CSI, the Income Survival Curve; CVR, the asset's Residual Value Curve; and TMA, the Asset Maintenance Work effectively borne by the holder. On the basis of these variables, income is classified as ultra-passive, passive financial, monitored passive, semi-passive, semi-active, active and ultra-active.

The central thesis is that passivity is not an absolute property of the asset, but a property of the relationship between the asset, its management structure and its holder. The same property, business, financial portfolio, publishing catalogue or economic operation may be more or less passive depending on its degree of delegation, automation, personal dependence and need for intervention by the holder.

1. Introduction: beyond the opposition between passive and active income

In ordinary economic language, passive and active income are frequently contrasted. The former are associated with financial returns, dividends, interest, rents or royalties. The latter are linked to labour, the provision of services, the management of a business or professional activity.

However, this binary opposition is too crude. Between a sovereign bond that automatically pays coupons and a professional who bills by the hour lies a long scale of intermediate situations. A small or medium-sized enterprise with employees, a holiday rental, a small publishing house, an agricultural operation, a share portfolio, a monetised website, a book catalogue or a delegated business is neither fully passive nor fully active. Its nature depends on how much income and value it preserves when the holder ceases to intervene.

The decisive question is not merely:

> *Does this asset generate income without work?*

The correct question is:

> *Does this asset continue to generate income and preserve value for its holder if the holder stops administering, organising, supervising and solving problems for one month, one year, five years or ten years?*

This nuance is fundamental. The point is not to imagine an asset abandoned in a vacuum, with nobody doing anything. Almost no asset works that way. Even a bond depends on an issuing state, a custodian bank, a financial system, tax rules and payment infrastructure. An ETF depends on a manager, an index, a depositary and a market. A rented property depends on a tenant, a homeowners' association, utilities, administration and regulation. A delegated business depends on employees, managers, suppliers and customers.

The issue is not whether nobody works. The issue is whether the holder has to work.

Economic passivity should therefore be measured from the holder's specific position. An asset is more passive the more independent its income flow and asset value are from the owner's direct administration.

2. Main thesis

The thesis can be formulated as follows:

> *The true passivity of an income stream is measured by the survival of the flow and of the asset's value when the holder ceases to administer, organise, supervise or intervene in a material way.*

Or, more concisely:

> *Economic passivity = persistence of income and value without material administration by the holder.*

This entails three central ideas.

First: passivity does not depend solely on the legal nature of the asset. It is not enough to say “shares”, “property”, “business” or “copyright”. One must examine how the source of income is structured.

Second: passivity is not a binary category, but a matter of degree. There are ultra-passive, passive, semi-passive, semi-active, active and ultra-active assets.

Third: passivity must be analysed through time curves. It is not enough to say whether something does or does not require work today. One must ask how income and value evolve if the holder withdraws from administration over different time horizons.

3. The three basic concepts: CSI, CVR and TMA

The model is based on three main variables.

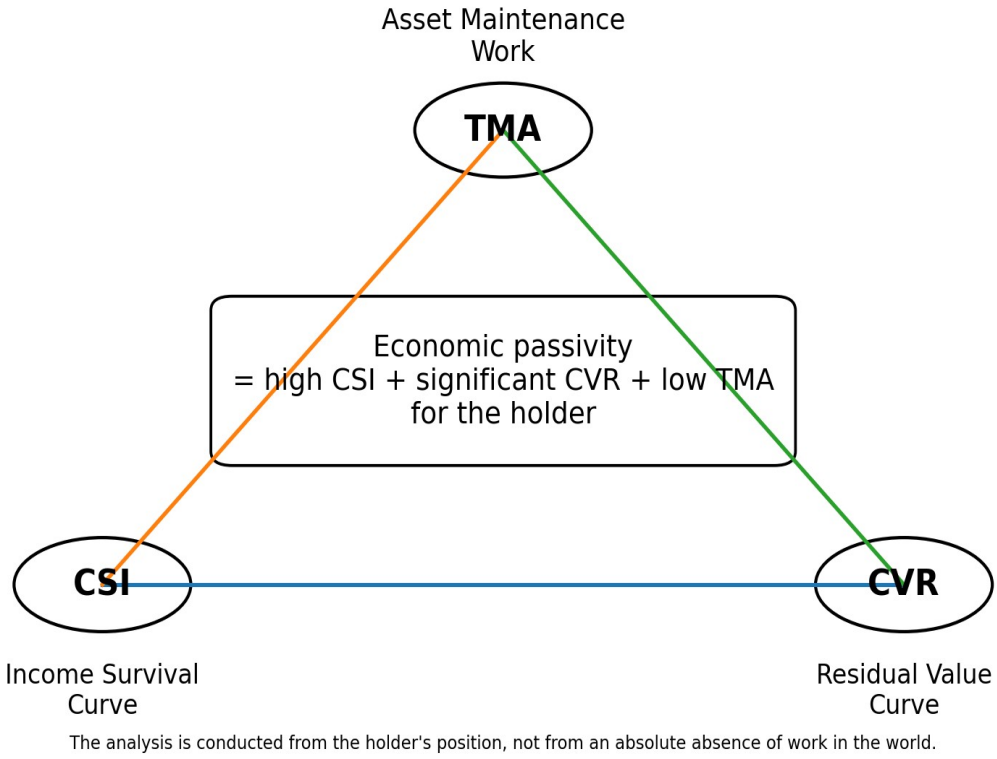
Asset Maintenance Work
TMA
Economic passivity
= high CSI + significant CVR + low TMA
for the holder
CSI
CVR
Income Survival Curve
Residual Value Curve
The analysis is conducted from the holder's position, not from an absolute absence of work in the world.

Figure 1. CSI-CVR-TMA conceptual model. Economic passivity increases when CSI is high, CVR is significant and the TMA borne by the holder is low.

3.1. CSI: Income Survival Curve

CSI, or the Income Survival Curve, measures the percentage of expected income that is maintained if the holder ceases to administer, organise or intervene for a given period.

It does not measure whether the asset produces while nobody does anything. It measures whether it produces without the holder doing so.

For example:

- A sovereign bond may continue to pay coupons even if the holder does nothing.
- An ETF may maintain economic exposure without frequent intervention by its owner.
- An individual share may continue to generate dividends, but over the long term it may require attention because of takeover bids, capital increases, mergers or deterioration of the business.
- A residential tenancy may continue to generate rent for months if the tenant pays.
- A holiday rental may cease to generate income if bookings, prices, cleaning and reviews are not managed.
- An SME may carry on for a few weeks or months without the owner if there is a team, but deteriorate if leadership is absent.
- A professional activity declines almost immediately if the professional stops providing the service.

CSI can be represented as a time curve. The horizontal axis shows the time without administration by the holder: one month, one year, five years and ten years. The vertical axis shows the percentage of income expected to be preserved.

A high, flat CSI indicates passive income.

A slowly declining CSI indicates semi-passive income.

A materially declining CSI indicates semi-active income.

A CSI that falls almost to zero indicates active or ultra-active income.

3.2. CVR: Residual Value Curve

CVR, or the Residual Value Curve, measures the percentage of the asset's economic value that is preserved if the holder ceases to administer it.

This variable differs from CSI. An asset may stop generating income but continue to have value. It may also maintain income for a time while destroying value over the long term.

For example:

- A holiday rental may cease to earn income if it is not managed, while the property itself retains value.
- A publishing house may sell less if it is not promoted, but it retains its catalogue, contracts, rights, ISBNs, brand and backlist.
- A business may lose turnover in the absence of management, but retain machinery, licences, a customer base, a brand or know-how.
- A self-employed professional may lose income and have little transferable value if the activity depended on that person's presence.
- An individual share may require no work from the holder, while its market value may fall for business reasons. Although that evolution is not causally dependent on the holder's work, the risk may require attention, study and monitoring in order to assess deterioration and decide whether to hold, sell or intervene in response to a corporate event.
- A bond may fluctuate in price because of interest rates, although maintaining it requires almost no intervention. Its price likewise does not depend on the holder's work and, as a rule, it requires even less attention or reaction than an individual share, which demonstrates its greater passivity.

CVR separates analysis of income from analysis of wealth. This is crucial. It is one thing for the flow to be passive and another for the value to be stable. It is one thing for the flow to deteriorate and another for the asset to disappear. A fall in value does not by itself make the asset less passive: it does so insofar as it creates a reasonable need for study, monitoring, decision or intervention by the holder.

The holiday rental is the clearest example: a semi-active flow combined with relatively passive asset value.

3.3. TMA: Asset Maintenance Work

TMA, or Asset Maintenance Work, measures the expected amount of work, monitoring, decision-making or intervention effectively borne by the holder in order to preserve income and value.

TMA does not measure all the work required by the asset in a physical or economic sense. It measures the work that the holder must assume.

A great deal of operational work may exist behind an asset, but if it is properly delegated, contracted, funded and supervised by third parties, the holder's TMA may be low.

Conversely, an apparently simple asset may have high TMA if the holder must constantly resolve incidents, payments, conflicts, decisions, supplier issues, employee matters or customer problems.

TMA may take different forms:

- Administrative TMA: taxes, returns, documentation and bank monitoring.
- Tax TMA (a specific subtype of administrative TMA): reporting income, capital gains, withholdings and tax compliance.
- Financial TMA: rebalancing, portfolio review, sale decisions and risk control.
- Legal TMA: claims, defaults, litigation, contracts and formal notices.
- Operational TMA: maintenance, customer service, repairs and coordination of people.
- Commercial TMA: customer acquisition, marketing, pricing, reputation and reviews.
- Strategic TMA: investment, expansion, closure, replacement of managers and restructuring.

Even an ultra-passive asset has a minimum TMA. A bond, for example, may require coupon income to be declared, tax information to be retained, custody to be reviewed or an extraordinary event to be addressed. Absolute passivity does not exist. What exists is a very low, predictable and non-continuous TMA.

3.4. Dynamic relationship between CSI, CVR and TMA

CSI, CVR and TMA do not operate as isolated dimensions. Each asset has a particular required TMA: the level of attention, administration, monitoring and decision-making necessary, given the asset's specific sensitivity, to preserve both its income flow and its asset value.

Therefore, a distinction must be made between the required TMA and the TMA actually applied by the holder. When the latter is sufficient, CSI and CVR can remain within their expected trajectories. When it is lower, a maintenance deficit arises. The greater the deficit and the more sensitive the asset is to lack of administration, the more likely and rapid the deterioration of CSI and, where applicable, CVR.

CSI shows what happens to the flow: whether income survives, declines or disappears when the holder ceases to administer. CVR shows what happens simultaneously to the asset base: how much value the asset retains despite insufficient management and how much it may deteriorate if that insufficiency persists.

In this sense, CVR also performs an asset-resilience function. When the ordinary flow weakens because the TMA applied has not been adequate, CVR indicates what value remains recoverable through preservation, sale, liquidation, conversion or an alternative use of the asset. It can

therefore act as a safety cushion or lifeboat against deterioration in income. It is not a separate curve, but a central function of the Residual Value Curve itself.

This residual value does not by itself correct insufficient administration or turn an operation requiring recurrent work into a passive one. A holiday rental may have a semi-active CSI and require a high TMA, while retaining a high CVR thanks to the property and its potential conversion into a long-term rental or sale. A strictly personal professional activity may have an active or ultra-active CSI and a very low CVR because hardly any asset remains separable from the holder. An SME may occupy an intermediate position if it retains machinery, inventories, brand, licences, processes or a customer portfolio.

CVR is therefore an additional factor in positioning each asset on the scale from ultra-passive to ultra-active. Two assets with similar CSI and TMA may differ profoundly if one retains substantial asset value when the flow fails and the other leaves almost no recoverable value. The final classification should arise from the combined profile of CSI, CVR and TMA, rather than from any one of these variables considered in isolation.

4. Passivity as a relationship between asset, structure and holder

An essential point of the model is that passivity does not belong to the asset in the abstract. It belongs to the asset's specific configuration in relation to its holder.

A property is not passive or active by nature. It may be:

- financially passive if held through a listed property company, REIT or real-estate fund;
- semi-passive if let on a long-term basis and managed by third parties;
- semi-active if operated as a holiday rental with partial management;
- active if the owner manages bookings, cleaning, incidents and guests.

A business is likewise not active or passive in the abstract. It may be:

- active if it depends on the founder;
- semi-active if it has a team but requires frequent supervision;
- semi-passive if it has professional management and periodic reporting;
- passive if held as a liquid minority interest;
- ultra-active if the income depends on the holder's daily intervention.

A publishing catalogue may be:

- active if it requires constant promotion by the publisher;
- semi-active if it requires launches, distribution and public presence;
- semi-passive if it has a stable backlist and recurring sales channels;
- almost passive if licensed to a third party that automatically accounts for and pays royalties.

The unit of analysis is therefore not simply “the asset”. The unit of analysis is:

asset + management structure + holder's position.

This triad explains why two people may own the same type of asset yet experience completely different levels of passivity.

5. Time horizons: the holder-absence test

The model rests on a simple test:

> *What happens if the holder stops administering for one month, one year, five years or ten years?*

Each horizon reveals a different dimension.

5.1. One-month test

This test identifies highly active income. If the flow falls within days or weeks, the income is active or ultra-active.

Examples:

- professional services;
- hourly work;
- manual trading;
- daily social-media management;
- personal selling;
- personally managed holiday rental.

5.2. One-year test

This test distinguishes income supported merely by inertia from income supported by a genuine structure.

Many SMEs, small businesses or delegated activities can survive one month without the holder. A year, however, reveals whether there is a real organisation or merely accumulated inertia.

Examples:

- an SME with employees but no professional management;
- a small publishing house;
- an agricultural operation;
- a shop with a manager;
- a tenancy with unresolved incidents;
- a holiday rental without price or reputation control.

5.3. Five-year test

This test identifies strategic risks. An asset may appear passive in the short term but require adaptation decisions over the medium term.

Examples:

- individual shares;
- ETFs with possible changes of manager;

- businesses facing competitive change;
- properties requiring significant refurbishment;
- intellectual rights losing visibility;
- businesses affected by regulation.

5.4. Ten-year test

This test measures the asset's true structural autonomy. Over ten years, fiscal, technological, regulatory, competitive, succession and wealth-related changes emerge.

A bond, a diversified ETF or a very simple portfolio may continue to have low TMA. A small SME, a holiday rental or a professional activity is unlikely to maintain the same curve without material intervention by the holder or a very robust delegated structure.

6. Typology of curves

The model distinguishes several types of curve.

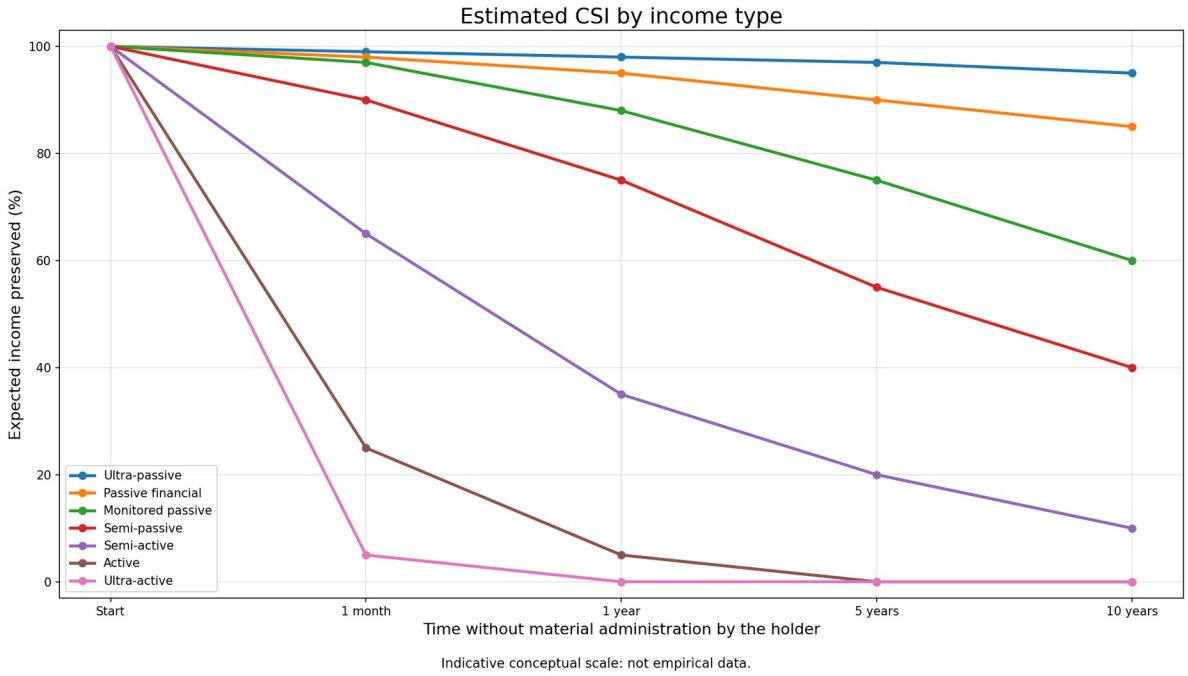

Figure 2. Expected Income Survival Curves (CSI) by category. The horizontal axis shows time without material administration by the holder; the vertical axis shows the conceptual percentage of income preserved.

6.1. Ultra-passive curve

CSI remains very high over long periods. TMA is minimal. CVR may fluctuate with the market, but it does not depend on the holder's management.

Example: a very long-term sovereign bond issued by a highly solvent state.

6.2. Passive-financial curve

CSI is high and fairly flat. TMA is low, although periodic reviews exist. CVR depends on the market.

Example: an index ETF, diversified fund or passive portfolio.

6.3. Passive curve with event risk

CSI may remain high for years, but discrete events may require intervention.

Example: individual shares, corporate bonds and holdings with idiosyncratic risk.

6.4. Semi-passive wealth curve

CSI remains reasonably high over the short and medium term, but occasional incidents arise. CVR is generally high. TMA is low to medium.

Example: a stable residential tenancy.

6.5. Semi-passive intellectual or digital curve

CSI depends on organic demand, distribution and the cultural or technological relevance of the asset. CVR may be significant where rights, a brand, a catalogue or software exist. TMA is generally low to medium, with peaks for updating or promotion.

Example: royalties, backlist books, mature software and licences.

6.6. Semi-active operational curve

CSI declines materially if the holder does not administer or if there is no robust structure to replace the holder. CVR may remain high where a physical or wealth asset exists. TMA is medium to high.

Example: a holiday rental, agricultural operation or business with an appointed manager.

6.7. Active curve

CSI falls rapidly if the holder stops working. CVR may exist, but it is generally limited where the activity depends on the individual. TMA is high and recurrent.

Example: self-employed professional, consultant, lawyer, operational CEO or liberal professional.

6.8. Ultra-active curve

CSI falls almost immediately. CVR is low or non-existent. TMA is extreme, continuous and difficult to delegate.

Example: intraday trading, hourly services, one-off sales and daily content dependent on personal presence.

7. Proposed classification

The resulting classification can be arranged along a continuous scale.

Category	CSI without administration by the holder	CVR	Holder's TMA	Typical examples
Ultra-passive	Very high and almost flat	High or contractually protected	Minimal	Simple sovereign bonds, deposits, simple money-market funds
Passive financial	High	High but market-variable	Low	ETFs, index funds, diversified portfolios

Monitored passive	High in the short term, more uncertain in the long term	Variable	Low with possible peaks	Individual shares, corporate bonds, liquid holdings
Quasi-passive	High where there is a sound delegated structure	High or medium-high	Low-medium	Delegated residential tenancy, established royalties, simple portfolio
Semi-passive	Medium-high, with slow deterioration	Medium-high	Medium-low	Publishing catalogue, licences, mature software, stable tenancy
Semi-active	Medium in the short term, declining over the medium term	High or medium	Medium-high	Holiday rental, delegated SME, agricultural operation, bookshop with employees
Quasi-active	Low if the holder is absent for prolonged periods	Medium-low	High	Small business dependent on its owner, activity with employees but no autonomous management
Active	Low or very low	Low-medium	High and continuous	Self-employed worker, liberal professional, operational CEO, in-person retailer
Ultra-active	Almost nil	Low or non-existent	Very high and immediate	Manual trading, hourly services, one-off sales, manual arbitrage

This table should not be understood as a rigid classification, but as a diagnostic tool. The same asset may move between categories if its management structure changes.

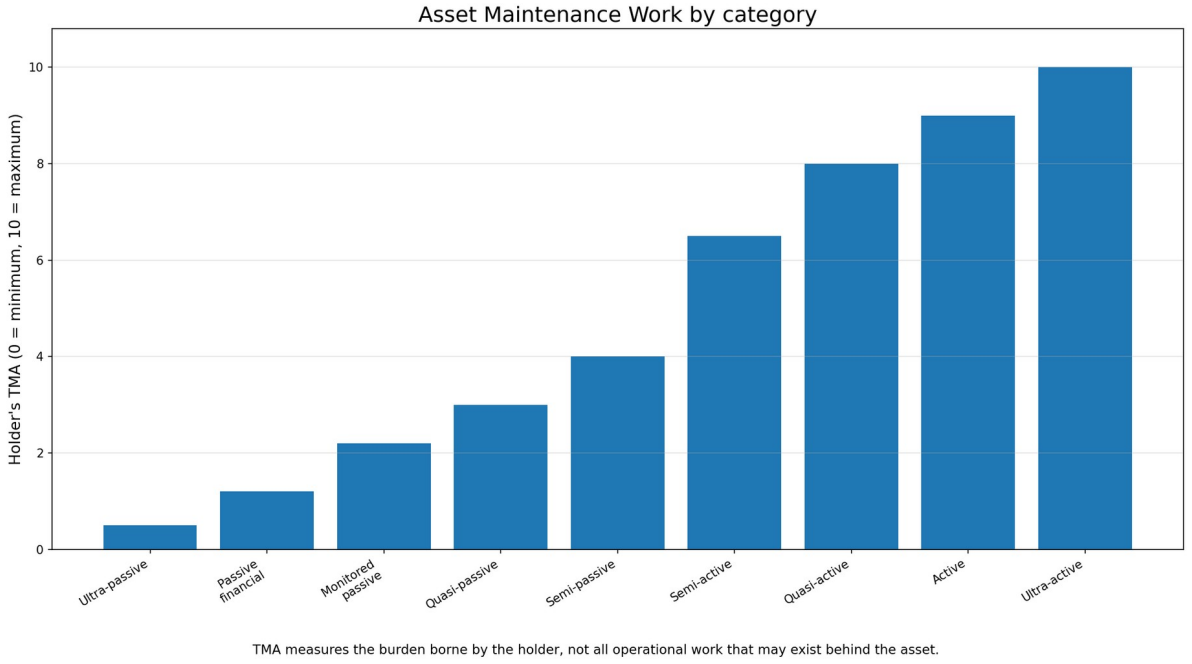

Figure 3. Conceptual TMA by category. As the scale moves towards active and ultra-active forms, the burden of administration, decision-making or intervention borne by the holder increases.

8. Paradigmatic cases

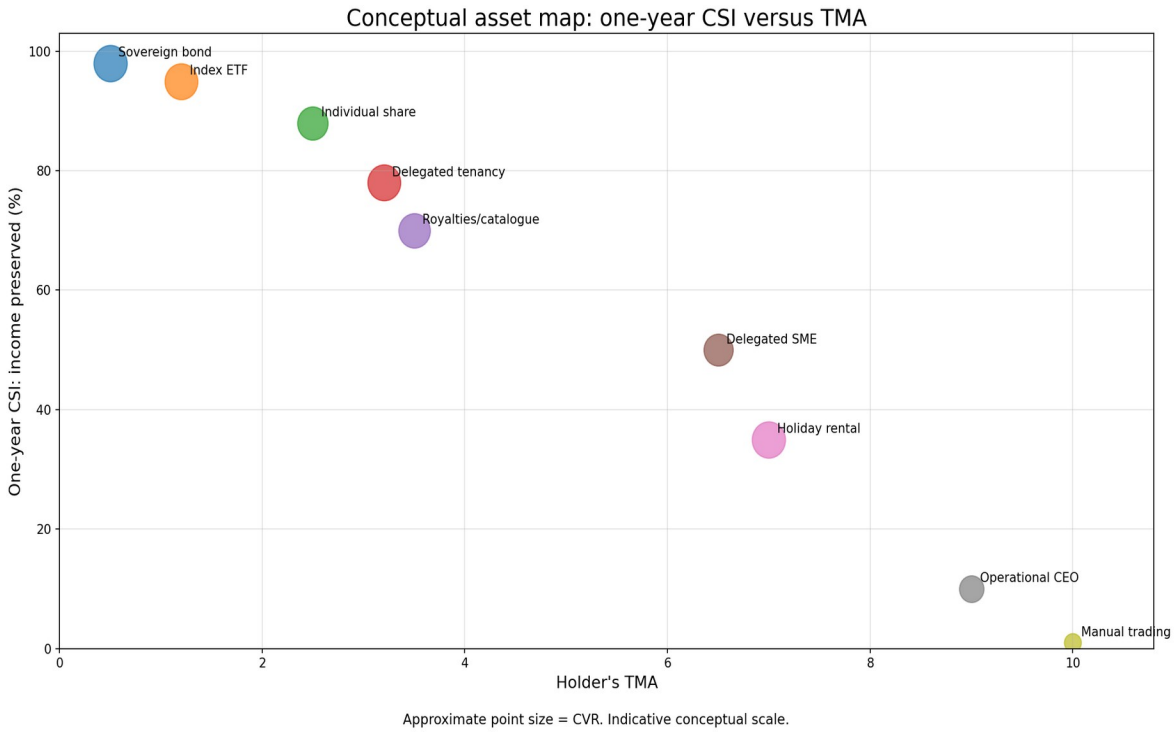

Figure 4. Conceptual map of assets according to one-year CSI and the holder's TMA. Point size approximates CVR, making it possible to identify assets with a semi-active flow but high residual value, such as a holiday rental.

8.1. Very long-term sovereign bond: the ultra-passive case

The closest example of ultra-passive income is a long- or very long-term sovereign bond issued by a highly solvent state. A one-hundred-year Austrian bond, for instance, may be used as a conceptual case.

If the holder owns the bond and it pays coupons, the holder is not expected to have to do practically anything to receive them. If the bond pays no coupons, the holder's expected intervention is even lower. The flow is contractually established. Actual administration is performed by the issuing state, markets, custodian banks and financial infrastructures.

CSI is almost asymptotic towards 100%. Over one month, one year or several years, income will normally survive without intervention by the holder. CVR may fluctuate because of changes in interest rates, inflation or market conditions, but this fluctuation does not depend on the owner's work. TMA is minimal.

Even here, however, absolute passivity does not exist. There may be annual tax work, declaration of coupons, document retention, custody review, possible regulatory changes or, in extreme cases, restructuring or sovereign default proceedings. Yet the probability and frequency of such intervention are very low.

This case represents the purest form of economic passivity: automatic flow, external administration and residual TMA.

8.2. Index ETF: diversified financial passivity

An index ETF or diversified fund also displays a highly passive curve. The holder does not administer the underlying companies, does not decide each individual investment and does not have to intervene in the asset's daily operation.

CSI is high. Economic exposure is maintained even if the holder takes no action for months or years. TMA is nevertheless slightly higher than for the ultra-passive bond. It may be necessary to review:

- changes of fund manager (very infrequent);
- closure or merger of the fund;
- significant tracking error (very rare in established products);
- costs;
- taxation (especially where there are dividends, sales or disposals of the asset);
- accumulation or distribution of dividends;
- sectoral or geographical concentration;
- the need for rebalancing.

Even so, TMA remains low. The holder need only conduct periodic reviews and make exceptional decisions. An ETF is therefore typically passive financial income, although not necessarily ultra-passive.

8.3. Individual shares: operational passivity with idiosyncratic risk

Individual shares are passive in an operational sense: the shareholder does not manage the company, supervise employees or sell its products. They are nevertheless less passive than a diversified portfolio because they concentrate idiosyncratic risk.

The company may deteriorate, fail, enter insolvency proceedings, face litigation, issue new capital, become subject to a takeover bid, merge, be delisted, face regulatory change or lose its competitive advantage. The holder may have to decide whether to sell, hold, subscribe to a capital increase, accept a bid or realise a capital loss.

CSI may be high over one year. Over five or ten years, the probability of relevant events increases. Average TMA remains low, but it may contain potentially intense peaks. CVR is variable and may deteriorate much more than in a diversified portfolio, but that deterioration does not depend on the holder's work.

Individual shares are therefore passive income or assets, but monitored ones. They are not business assets in an operational sense for the holder, but neither are they ultra-passive.

8.4. Stable residential tenancy: semi-passive wealth income

A stable residential tenancy can be semi-passive if properly configured. The property preserves value, the tenant pays periodically and the holder need not intervene every day.

CSI may remain high for months or years, especially where there is a reliable tenant, a clear contract and delegated management. CVR is generally high because the property remains even if the flow is interrupted. TMA is low to medium.

However, incidents may arise:

- defaults;
- repairs;
- tenant turnover;
- rent updates;
- contractual disputes;
- homeowners' association matters;
- insurance;
- taxation;
- residential tenancy regulation.

The curve is not as flat as that of a bond or ETF. It contains peaks of intervention. Yet, unlike a professional activity, the income does not depend on the holder's daily presence. It therefore fits well as semi-passive wealth income.

8.5. Holiday rental: wealth asset with a semi-active flow

The holiday rental is a fundamental example because it shows the importance of separating CSI from CVR.

The property may preserve value even when the holder does not administer it. CVR may be high. The holiday-rental flow, however, may deteriorate very rapidly if it is not managed.

Without administration by the holder or an effective delegated structure, the following may fail:

- bookings;
- cleaning;
- guest service;
- dynamic pricing;
- reviews;
- maintenance;
- platform management;
- licences;
- communication;
- restocking of supplies;
- regulatory compliance.

CSI may fall within weeks or months. This is not because the property asset ceases to exist, but because the tourist flow requires continuous organisation.

If the property is personally managed, it is semi-active or even quasi-active. If there is a solvent professional operator, a stable contract, reporting and the capacity to resolve incidents, it may move towards semi-passivity for the holder. In general, however, a holiday rental should not be confused with pure passive income. It is a wealth asset with an operational business attached to it.

8.6. Intellectual property, books, software and royalties

Intellectual assets have a mixed curve. Once the work, software, book, licence or catalogue has been created, it may continue to generate income without intense intervention. Its survival,

however, depends on visibility, distribution, cultural or technological relevance and the defence of rights.

CSI may be high where organic demand exists. A backlist book, a licensed song, a patent exploited by third parties or mature software may, for example, generate semi-passive income.

CVR may be significant where there are rights, a brand, a catalogue, contracts, reputation or a community. TMA is generally low to medium, but may include peaks of promotion, updating, legal defence, contractual renewal or technical adaptation.

Three cases should be distinguished:

- consolidated creative asset: more semi-passive;
- creative asset dependent on launch or promotion: more semi-active;
- personal commissioned creative service: clearly active.

A small publishing house, for example, may have a catalogue with residual value, while new releases, distribution, promotion and relationships with authors may require high TMA. Conversely, a catalogue licensed to a third party may drastically reduce the holder's TMA.

8.7. Delegated SME: business semi-activity

A small business with employees may appear passive if the owner does not personally perform every task. Many SMEs, however, still depend on the holder's judgement, presence, contacts, supervision or problem-solving ability.

CSI may be acceptable for one month if employees and routines exist. Over one year, however, it may deteriorate if nobody makes strategic decisions. Over five years, the holder's absence may cause loss of customers, margins, financial discipline or competitive adaptation.

TMA is generally medium to high. Even if the owner is not at the till, in the warehouse or directly providing the service, the owner may have to decide on:

- hiring and dismissals;
- prices;
- suppliers;
- investments;
- financing;
- labour disputes;
- commercial strategy;
- tax and employment compliance;
- replacement of managers;
- crisis resolution.

CVR may be medium or high if the business has a brand, processes, a customer base, assets and an autonomous team. It may be low, however, if the business actually depends on the owner.

The delegated SME is the typical case of semi-active income. It does not necessarily require daily work, but it does require recurring administration by the holder unless genuinely autonomous professional management exists.

8.8. Professional activity and operational CEO: active income

With active income, CSI falls rapidly if the holder stops working or administering.

Examples:

- a lawyer who bills by the hour;
- a tax adviser who provides services directly;
- a consultant;
- a private physician;
- a commissioned artist;
- an indispensable founder-CEO;
- a shopkeeper who personally serves customers;
- a self-employed professional with a personal client portfolio.

Outstanding invoices, deferred income or recurring clients may continue for a time, but new flow depends on intervention by the holder. CVR is generally low if there is no transferable business. It may be medium if a client base, brand or team exists, but at that point the activity begins to turn into a business.

TMA is high and continuous. The holder does not merely maintain the asset: the holder is a substantial part of the asset.

8.9. Ultra-active: income requiring immediate presence

The opposite extreme from the ultra-passive bond is ultra-active income. Here the flow disappears almost immediately if the holder ceases to act.

Examples:

- intraday trading;
- one-off commission sales;
- manual arbitrage;
- daily content extremely dependent on personal presence;
- live performances;
- non-delegable hourly services;
- intermediation without a client portfolio;
- tasks that create no residual asset.

CSI falls to zero or almost zero. CVR is low or non-existent. TMA is maximal because the income requires continuous action.

It may be profitable, but it does not create temporal freedom unless it is transformed into a system, brand, client base, business, product or transferable right.

9. Comparison of curves by asset type

The expected curves can be summarised as follows.

9.1. Ultra-passive

CSI is almost flat and close to 100%. TMA is minimal and discrete. CVR depends on solvency and the market, but not on administration by the holder.

Example: a highly solvent sovereign bond.

9.2. Passive financial

CSI is very high, although occasional reviews are required. TMA is low. CVR depends on the market.

Example: an index ETF.

9.3. Monitored passive

CSI is high over the short term, but there is greater event risk over the long term. Average TMA is low, but may contain peaks. CVR is more vulnerable.

Example: an individual share.

9.4. Semi-passive

CSI is reasonably sustained, but not automatically. CVR is generally significant. TMA is low to medium.

Example: residential tenancy, established royalties or a catalogue with a stable backlist.

9.5. Semi-active

CSI survives through inertia over the short term, but declines if management is absent. CVR may remain high where a wealth asset exists. TMA is medium to high.

Example: holiday rental, delegated SME or agricultural operation.

9.6. Active

CSI falls rapidly. CVR depends on whether something transferable exists beyond the holder. TMA is high.

Example: professional, operational CEO or self-employed worker.

9.7. Ultra-active

CSI falls almost immediately. CVR is low. TMA is continuous and intense.

Example: manual trading, one-off sales or hourly services.

10. From label to diagnosis: practical questions

The model can be applied by asking a series of questions.

10.1. Questions about CSI

- What percentage of income would continue to be received if the holder did nothing for one month?
- And for one year?

- And for five years?
- Does the income depend on daily, weekly, monthly or annual decisions?
- Are third parties maintaining the flow without intervention by the holder?
- Does lack of intervention reduce only growth, or also existing income?

10.2. Questions about CVR

- If the flow stops, does the asset still have value?
- Can the asset be sold?
- Does value exist independently of the holder?
- Are there a brand, contracts, licences, rights, property, a customer portfolio, machinery, software or goodwill?
- Does the value deteriorate slowly or disappear with inactivity?

10.3. Questions about TMA

- Which tasks must the holder perform personally?
- Which tasks are delegated?
- Is delegation stable, or does it depend on constant monitoring?
- Must the holder resolve critical incidents?
- Does the asset require tax, legal, commercial, operational or strategic attention?
- Is TMA continuous, or does it arise in peaks?
- Can the holder be absent without problems accumulating?

These questions allow the asset to be classified more precisely than the traditional label of “passive” or “active”.

11. Delegation as a modifier of passivity

Delegation is one of the main factors that moves an asset along the scale.

Not every form of delegation, however, turns income into passive income. To genuinely reduce the holder's TMA, delegation must satisfy certain conditions:

- it must be stable;
- it must be contractually established;
- it must be economically sustainable;
- it must include appropriate incentives;
- it must provide sufficient reporting;
- it must allow the manager to be replaced;
- it must not depend on daily monitoring;
- it must not continually transfer problems back to the holder.

Poor delegation may even increase TMA. The holder stops executing tasks, but starts supervising, correcting, chasing, controlling and resolving them. In that case the asset does not become passive: the type of work changes.

Useful delegation is therefore not delegation that conceals work, but delegation that genuinely reduces the need for material administration by the holder.

12. Scalability and passivity

Passivity is related to scalability, but the two are not the same.

Income is scalable if it can grow without a proportional increase in the holder's hours. Income is passive if it can be maintained without material intervention by the holder.

Income may be scalable yet active. An influencer, for example, may scale an audience while remaining dependent on constant presence. A business may generate substantial turnover but require permanent direction. A consultancy may have high margins but depend on its principal partner.

Income may also be difficult to scale yet highly passive. A bond does not scale by itself, but requires little TMA. A residential tenancy may not scale without acquiring more properties, but it may be semi-passive.

Passivity measures freedom from administration. Scalability measures the capacity for non-linear growth. They are distinct, though related, variables.

13. Operational fragility and TMA peaks

Operational fragility is another important element. Two assets may have the same average TMA but different risk profiles.

A bond may have almost zero TMA for years, with a highly improbable extreme risk. A property may have low TMA for months, but a breakdown, default or dispute may demand substantial intervention. An individual share may require nothing for years and suddenly demand a relevant decision because of a takeover bid or insolvency.

It is therefore useful to distinguish:

- average TMA;
- maximum expected TMA;
- frequency of peaks;
- severity of peaks;
- capacity to delegate peaks;
- cost of failing to intervene.

A genuinely passive asset has not only low average TMA, but also peaks that are infrequent, predictable or easily delegable.

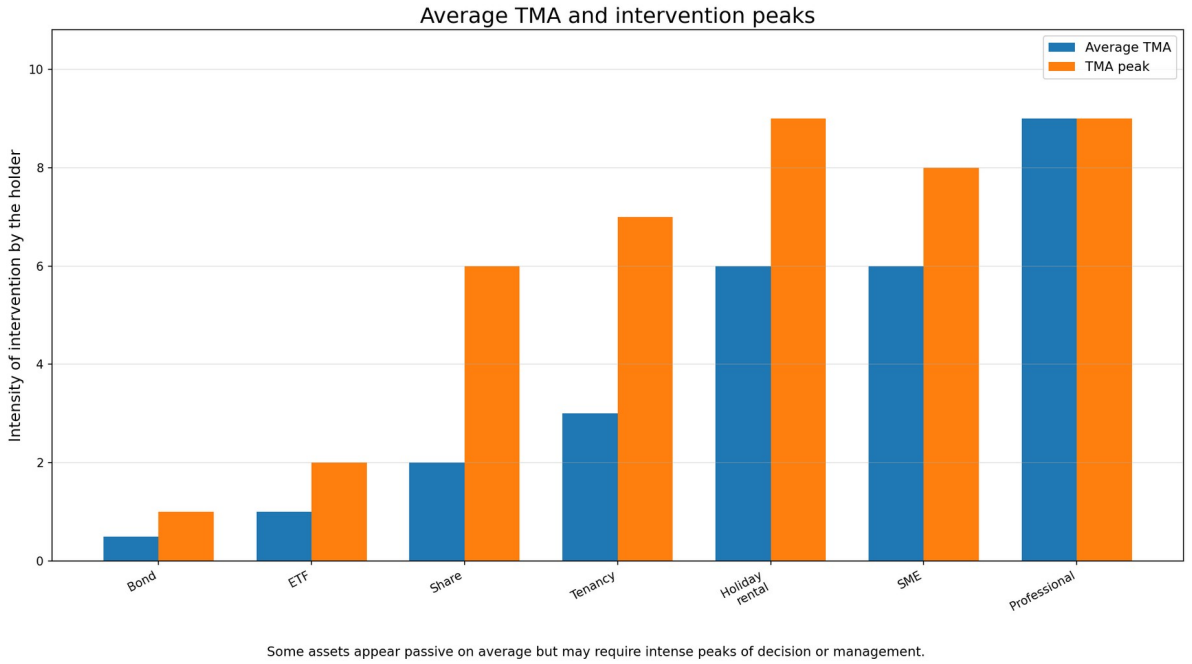

Figure 5. Average TMA versus intervention peaks. Distinguishing between the average and the peak prevents apparently quiet assets from being confused with assets that may trigger intense management crises.

14. Personal dependence and holder risk

The theory connects with a classic business concept: key-person risk. The more the flow depends on the holder, the less passive the income is.

Personal dependence may take several forms:

- technical dependence: only the holder knows how to do it;
- commercial dependence: customers buy because of the personal relationship;
- reputational dependence: the holder's name is the product;
- decision dependence: nobody decides without the holder;
- financial dependence: the holder controls payments and financing;
- legal or administrative dependence: authorisations are linked to the holder;
- emotional or cultural dependence: employees and customers remain loyal to the founder.

Reducing this dependence increases passivity, but only if the reduction is real rather than apparent.

15. Transformation of assets: how active income can become semi-passive

One advantage of the model is that it not only classifies, but also guides transformation.

Active income may move towards semi-active, semi-passive or passive status through:

- process creation;
- documentation;

- automation;
- hiring;
- genuine delegation;
- creation of a brand independent of the holder;
- recurring contracts;
- transferable assets;
- intellectual property;
- reporting systems;
- customer diversification;
- reduction of urgent tasks;
- separation of ownership and management.

For example:

An adviser who bills by the hour has active income.

If the adviser creates a firm with employees, the income becomes semi-active.

If the adviser appoints management, systematises processes and retains ownership, it may approach semi-passivity.

If the adviser sells the firm and retains a financial interest, the income becomes passive financial income.

Passivity is not only a category; it is also a strategic direction.

16. Application to wealth portfolios

The model allows a wealth portfolio to be analysed not only in terms of return and risk, but also in terms of aggregate TMA.

A portfolio may offer a high expected return but high TMA. Another may offer a lower return but greater temporal freedom. The rational choice depends on the holder's objectives.

For a person seeking freedom, security or control over time, TMA is an essential variable. A person in an entrepreneurial phase may accept higher TMA if residual value is being built. For a purely wealth-focused investor, the objective may be to maximise the relationship among expected return, high CSI, robust CVR and low TMA.

The ideal portfolio is not necessarily the most profitable, but the one that best combines:

- return;
- risk;
- liquidity;
- residual value;
- CSI;
- TMA;
- delegability;
- tax and legal robustness.

17. A conceptual formula

Economic passivity can be expressed conceptually as follows:

> *Economic passivity = high CSI + significant CVR + low TMA for the holder.*

Or, in more developed form:

Income is more passive the more the following conditions are satisfied:

- the flow survives without material administration by the holder;
- the asset preserves value even if the flow declines;
- the maintenance work borne by the holder is low;
- intervention peaks are rare or delegable;
- the management structure does not depend personally on the holder;
- the asset can be maintained, transferred or sold without destroying its principal value.

Absolute passivity would be the limiting case in which CSI remains at 100%, CVR does not deteriorate and the holder's TMA is zero. In practice, this case does not exist. What exist are degrees of approximation.

18. Reinterpreting the traditional classification

The traditional classification states:

- passive income: capital;
- active income: labour.

The CSI-CVR-TMA model offers a richer interpretation:

- there is ultra-passive capital;
- there is passive but monitored capital;
- there are wealth assets with semi-active flows;
- there are businesses that are disguised self-employment;
- there are businesses that are transferable assets;
- there are intellectual rights that function as backlist assets;
- there are intellectual rights that require constant promotion;
- there are forms of work that can become systems;
- there are assets that appear passive but require continuous administration.

This avoids a common confusion: calling everything that carries risk “active” and everything involving ownership “passive”. Financial risk is not equivalent to activity, and ownership of an asset does not guarantee passivity.

19. Conclusion

Economic passivity is not a fixed label, but a curve. It depends not merely on whether the asset generates income, but on whether it generates income and preserves value for the holder without requiring the holder to administer, organise, supervise or resolve matters in a material way.

The proposed model rests on three concepts:

- CSI: Income Survival Curve.
- CVR: Residual Value Curve.
- TMA: Asset Maintenance Work borne by the holder.

On this basis, income can be distinguished as ultra-passive, passive financial, monitored passive, quasi-passive, semi-passive, semi-active, quasi-active, active and ultra-active.

A very long-term sovereign bond represents the ultra-passive extreme: high income survival, external administration and minimal TMA. ETFs are diversified passive financial assets. Individual shares are passive but monitored. Residential tenancies may be semi-passive. Holiday rentals retain wealth value but have semi-active flows. Publishing catalogues, royalties and software may be semi-passive where they have organic demand or stable delegation. Small SMEs are usually semi-active. Professionals, self-employed workers and operational CEOs are active. Manual trading, hourly services and one-off sales are ultra-active.

The decisive question is not:

> *Is this income passive or active?*

The decisive question is:

> *What curve does this income draw if the holder stops administering it for one month, one year, five years or ten years?*

That is where its true economic nature appears.

Methodological annex on the figures

The figures in the document are conceptual representations. They do not seek to measure empirically the return, solvency, taxation or risk of each asset. Their purpose is to visualise the theory: how CSI, CVR and TMA vary according to dependence on the holder and the management structure.

The numerical values used in the charts are indicative scales for comparing curve shapes. In a real application, each asset should be assessed using concrete data: contracts, management costs, incident history, delegation quality, liquidity, taxation and personal dependence.